

***Bloated Balance Sheets
Bank Runs
Bailouts
Credit Conditions Tightening
Lead to???***



C. Bruce Johnstone

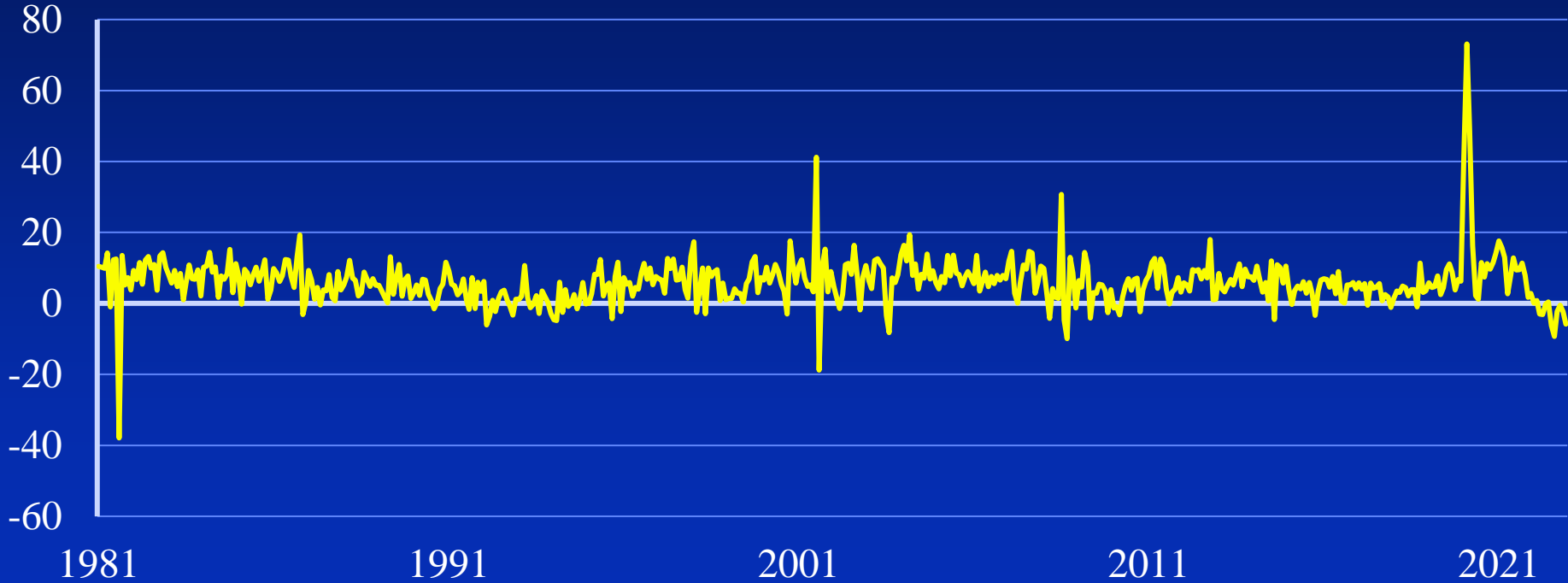
Managing Director, Fidelity Investments
Former Chief Investment Officer
Fidelity International Ltd.

Fidelity Investments

245 Summer Street
Boston, MA 02210

The Run

Bank Deposits (% Annual Change)



At monthly rate. Seasonally adjusted. Source: St. Louis Fed, as of 3/27/2023.

Confidence?

*China Emerging from Hibernation??
Russia Breathing Fire?
Inflation and U.S. Economy Having Peaked?
Where Go Economies and Markets?*



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Is That All?

- Political differences worsen? (e.g., debt default, election turmoil)
- Other war-like events erupt? (Multi-polar world)
- Pending recession and earnings decline *really* erupt?
- Black swan lands in market pond?

Or... What If?

- Ukraine and Moldova beat Russia
- Taiwan threat subsides
- Democrats and Republicans make up
- Trump drops out
- Inflation slows down gently and rates peak
- Finally, we get a soft-landing economy

How Do You Compare Investment Opportunities Around the World?



U.S.
Stock Markets

**Rising
Corporate
Earnings**

**Benign
Inflation/
Interest Rates
and Ample
Liquidity**

**Reasonable
Valuations**

Rising Corporate Earnings

Tailwinds

U.S. Net Worth ↑ \$63T since GFC

Job Openings Still Strong

Lag Effect of Covid Spending

China Emerging (Debt to GDP 72%)

PBoC to the Rescue

Headwinds

Huge Setback in Net Worth 2022

Sticky Inflation

Aggressive Fed

Debt Everywhere

Demographics

Cyber Risk

Increasing Regulation

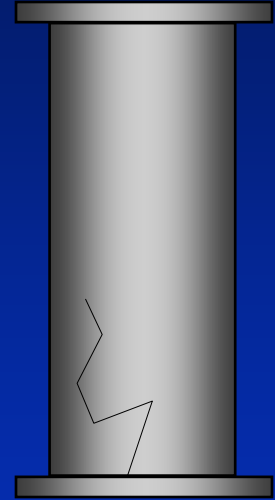
Wavering Consumer Confidence

Protectionism

Costly Move to EV

Bank Runs Tighten Credit

Private Equity/Venture Capital at Risk



Liquidity Stagnating

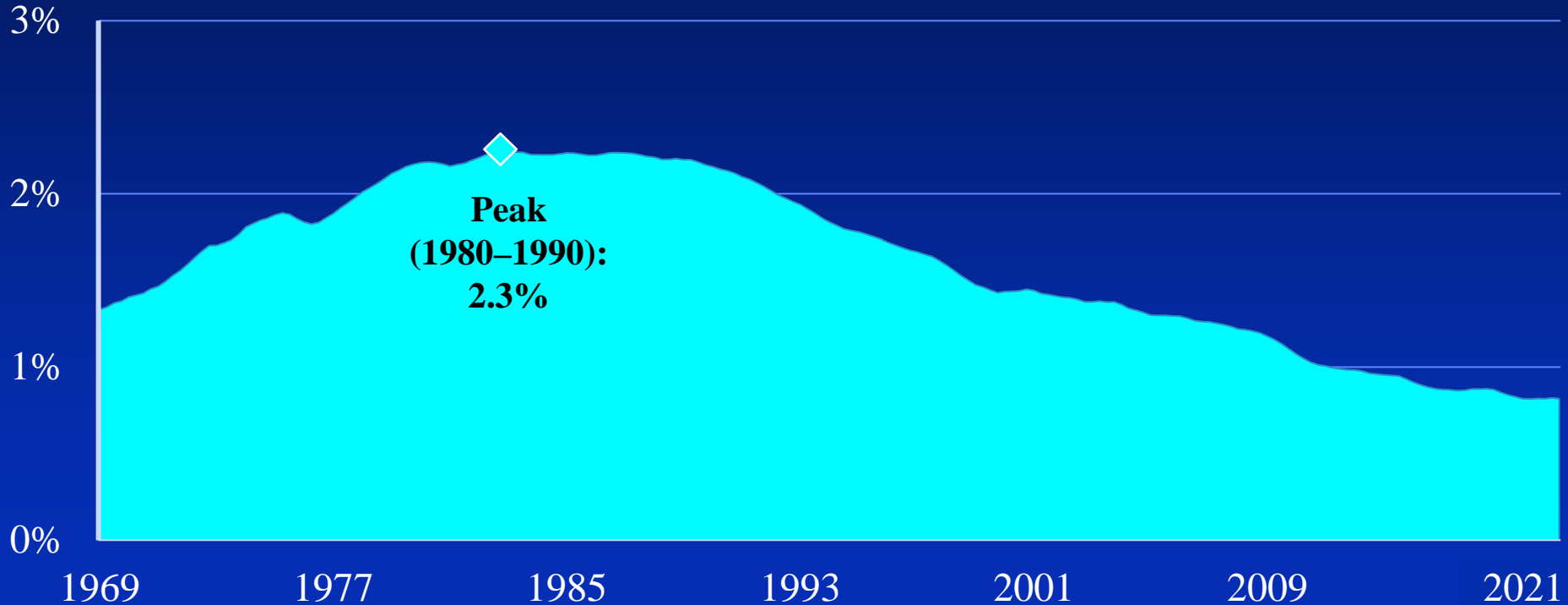
Real U.S. M2 (Year-over-Year %)



Source: Evercore ISI, as of 2/10/2023.

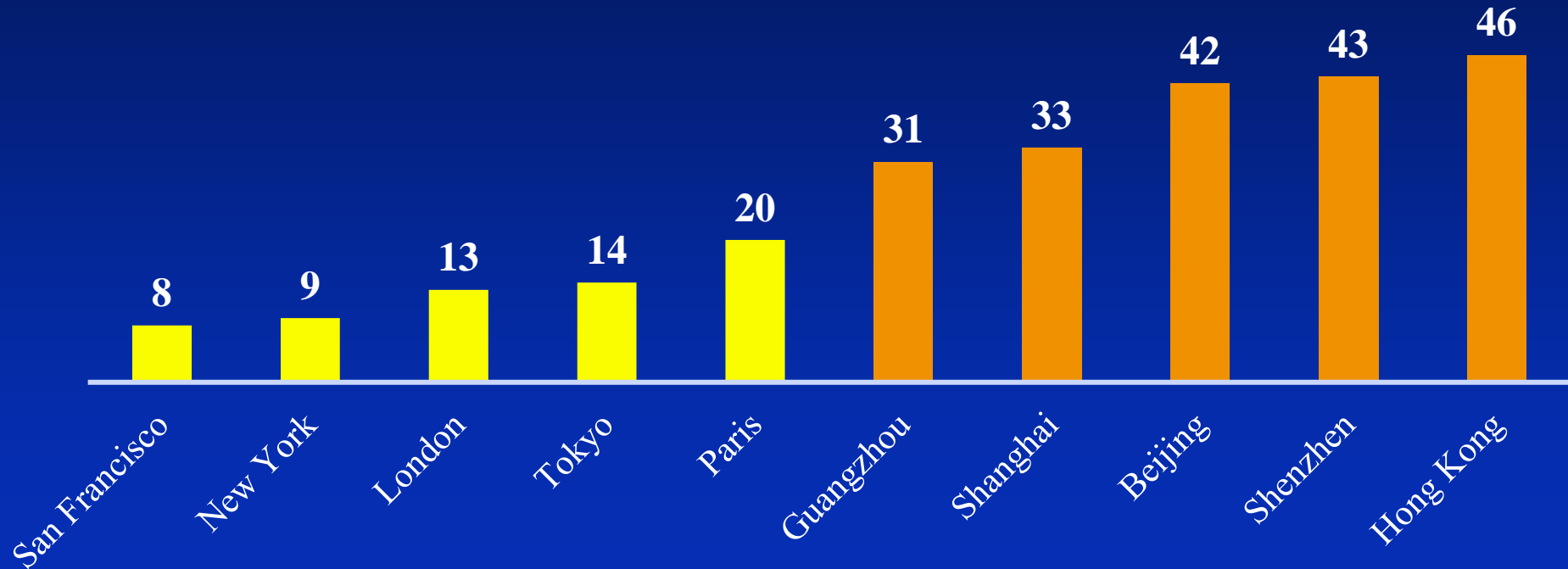
Slower U.S. Economic Growth Likely

Labor Force Contribution Peaked 40 Years Ago



Chinese Real Estate Bubble?

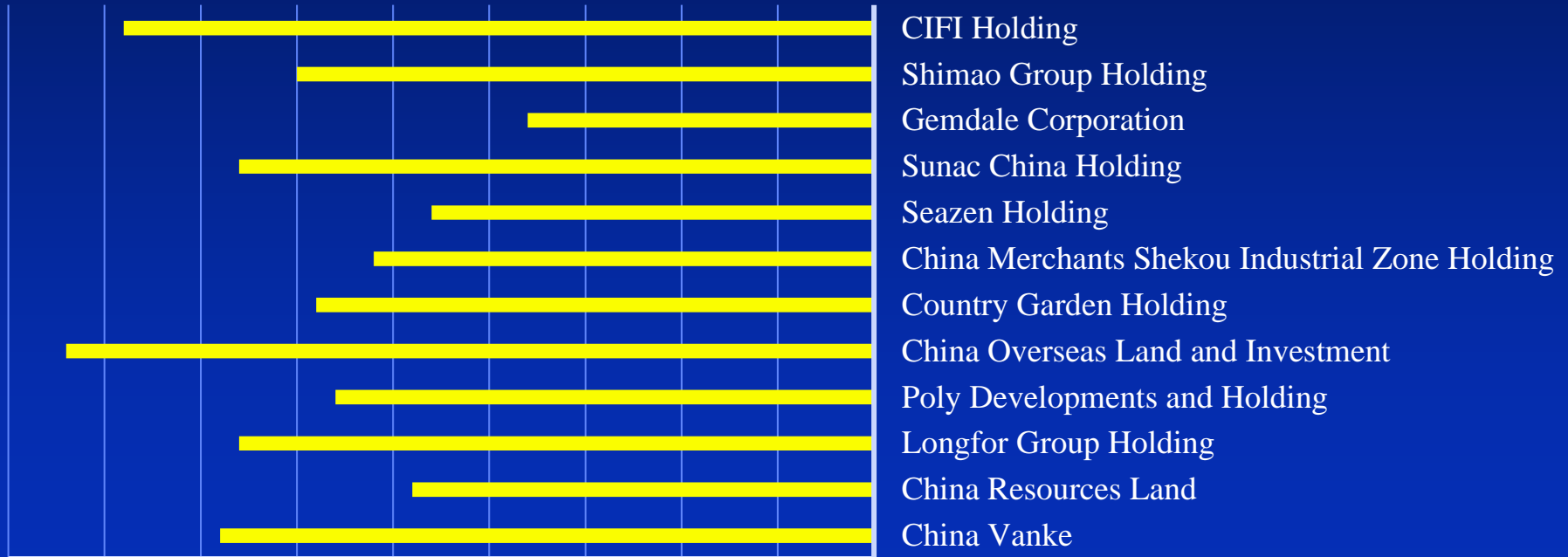
Home-Price-to-Annual-Income Ratios



Real Estate Development Plunging

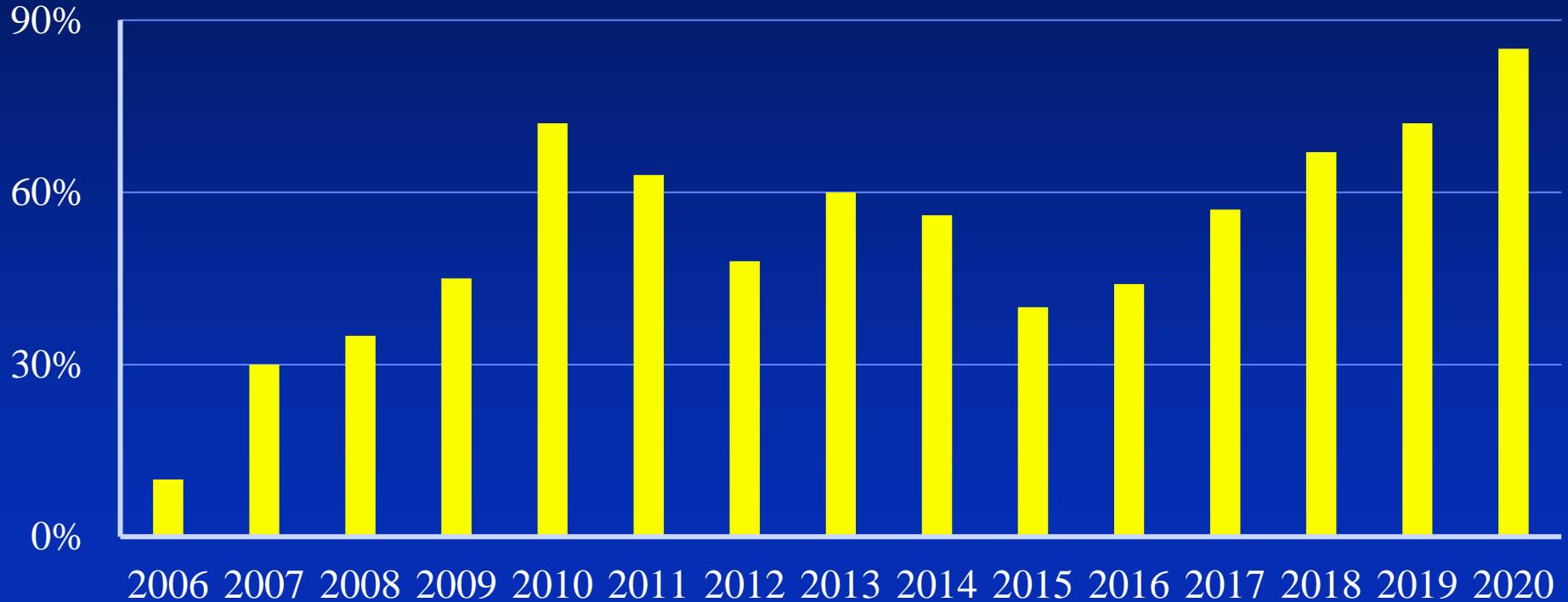
Chinese Development Companies, Year-over-Year Changes in Contract Sales

-45% -40% -35% -30% -25% -20% -15% -10% -5% 0%



Look at Where Cities Get Their Money

China Land Sales as a Share of Local Government Revenues



China Stifling Growth?

- “Common prosperity”
- “Do it for the Party”
- “De-emphasize profits”
- Anti-celebrity/anti-wealth/anti-monopoly
- Property tax? Inheritance tax?
- Judiciary risk rising
- Hong Kong real estate risk
- Developers credit risk HUGE

China Consumer Risks

Future growth slowdown very possible

- Household debt at 59% of GDP
- Household debt-to-income ratio of 130%
- Residential housing comprises three-quarters of Chinese household wealth
- Very poor pension plans (must increase retirement age)
- Population growth *finis*

*Once upon a time, there was a megalomaniac.
His name was Vladimir Putin.*

*His actions have catapulted humanity back to a state
we thought we'd eliminated ... World War II.*

Momentous Developments of Russia's Invasion

A once-in-a-century catastrophe

- Sanctions... freezing Russia's central bank reserves, banks precluded from SWIFT
- Leasing companies forcing grounding of planes, tourism whammy, shutdown of Ukraine/Russia airspace
- Seizing the assets of Russian oligarchs
- The end of Swiss neutrality, Sweden and Finland attempting to join NATO
- Increase in worldwide military spending
- European energy shortages, waves of immigration, wheat/fertilizer/food prices ↑
- Warfare, weaponry is changing (e.g., drones)
- Freezing of yesterday's energy production (coal, shale, pipelines)
- Technology imports blocked, exports also
- Realignment of the Russian ruble
- CHANCES OF ESCALATION TO INCREASE... PUTIN DOESN'T CARE

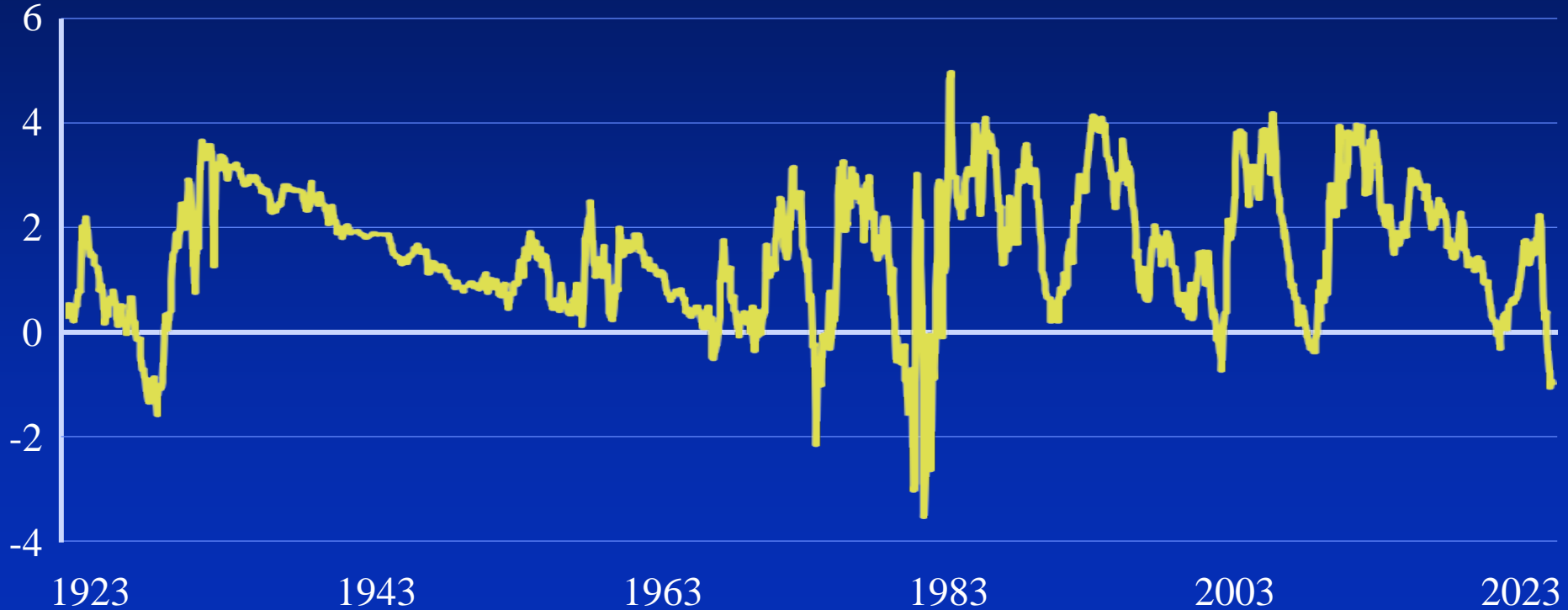
Monetary Tightening Slowing Growth amid Inflation

Global Short Rates



Notice 1929

100 Years of the U.S. Yield Curve



Source: ASR Ltd/Refinitiv, as of 3/22/2023.

Earnings Growth: Typically 7%, Surged after Pandemic, and SLOWING Now

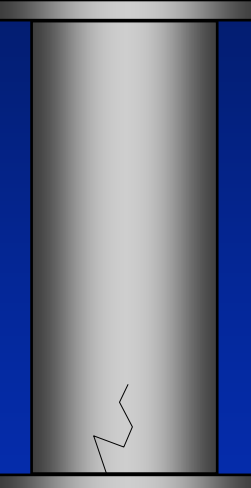


*Excludes IVA & Ccadj, and write-offs. Growth paths are compounded monthly to yield 5%, 7% and 10% annual rates.

Source: Yardeni, as of 11/20/2022.

Benign Inflation / Interest Rates / Ample Liquidity

Positives



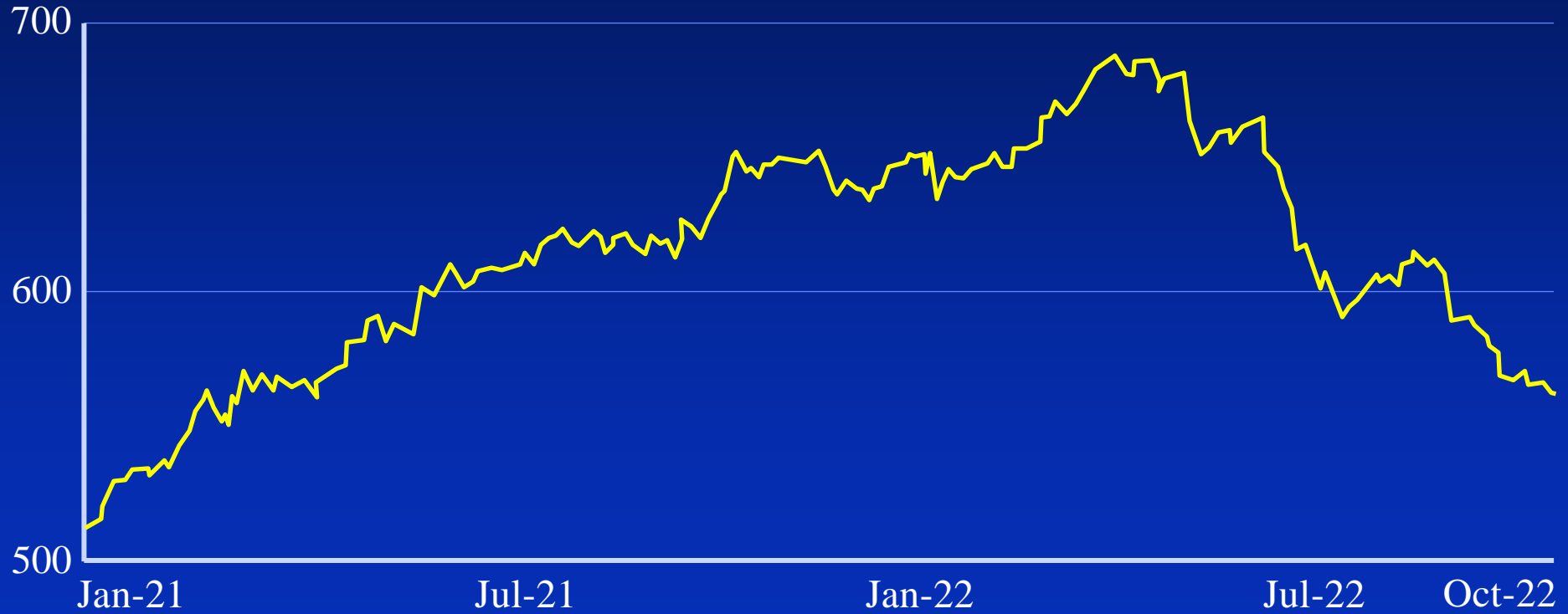
M2 Contracting
Inflation Rolling Over
QT Still Underway
Aging Demographics
Technology
Stronger Dollar
Earnings to Slow
Bank Crisis Effect
Debt Deleveraging

Risks

War Restricting Commodities
Slowdown in Globalization
Colossus of Printed Money
Fed: Game Over
Huge Budget Deficits
Illinois Debt Near Junk-Bond Status
Huge Debt Levels
Too Fast a Move to Green (China and Europe Power Supply)
Credit Risk → Credit Guarantees
Risk of Structurally Elevated Inflation

Inflation Cooling

CRB Raw Industrials Index



Source: Evercore ISI, as of 10/18/2022.

Inflation Rolling Over?

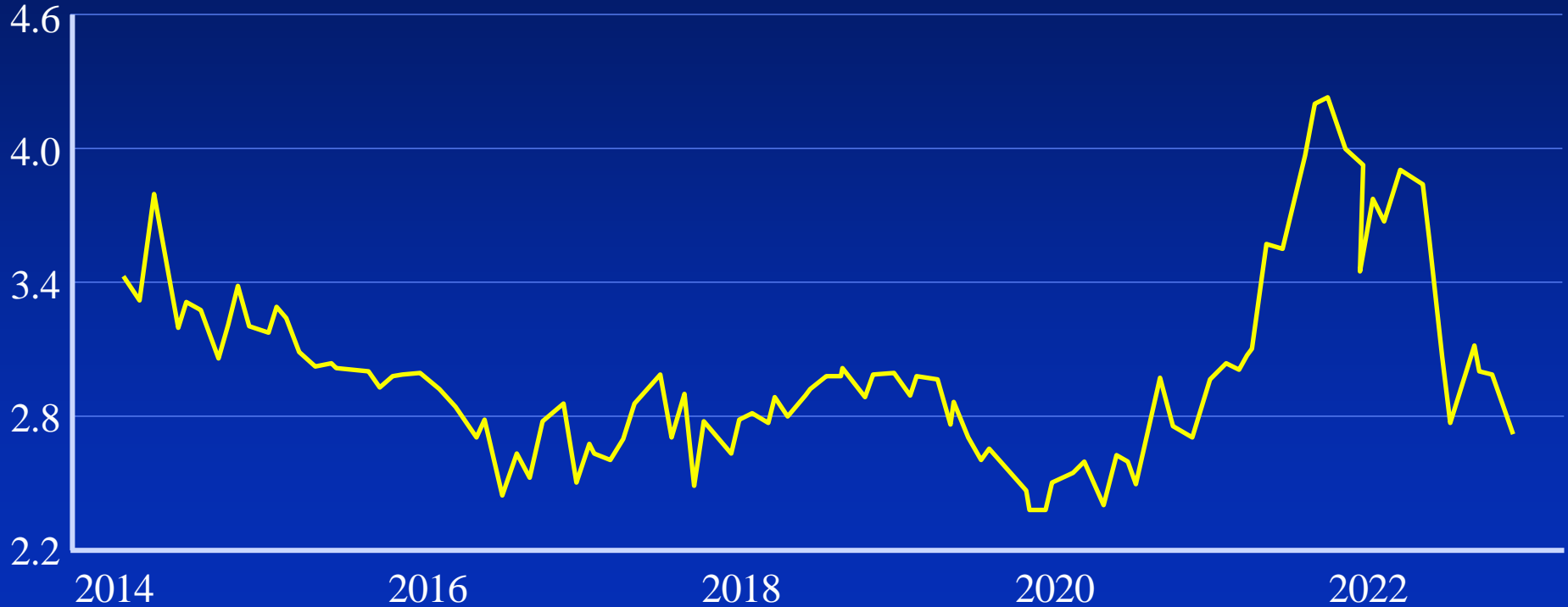
U.S. CPI Year-over-Year



Source: Strategas Research Partners, as of 2/16/2023.

Expectations Diminishing

U.S. Inflation Expectations (Three Years Ahead)



Mindboggling Federal Spending

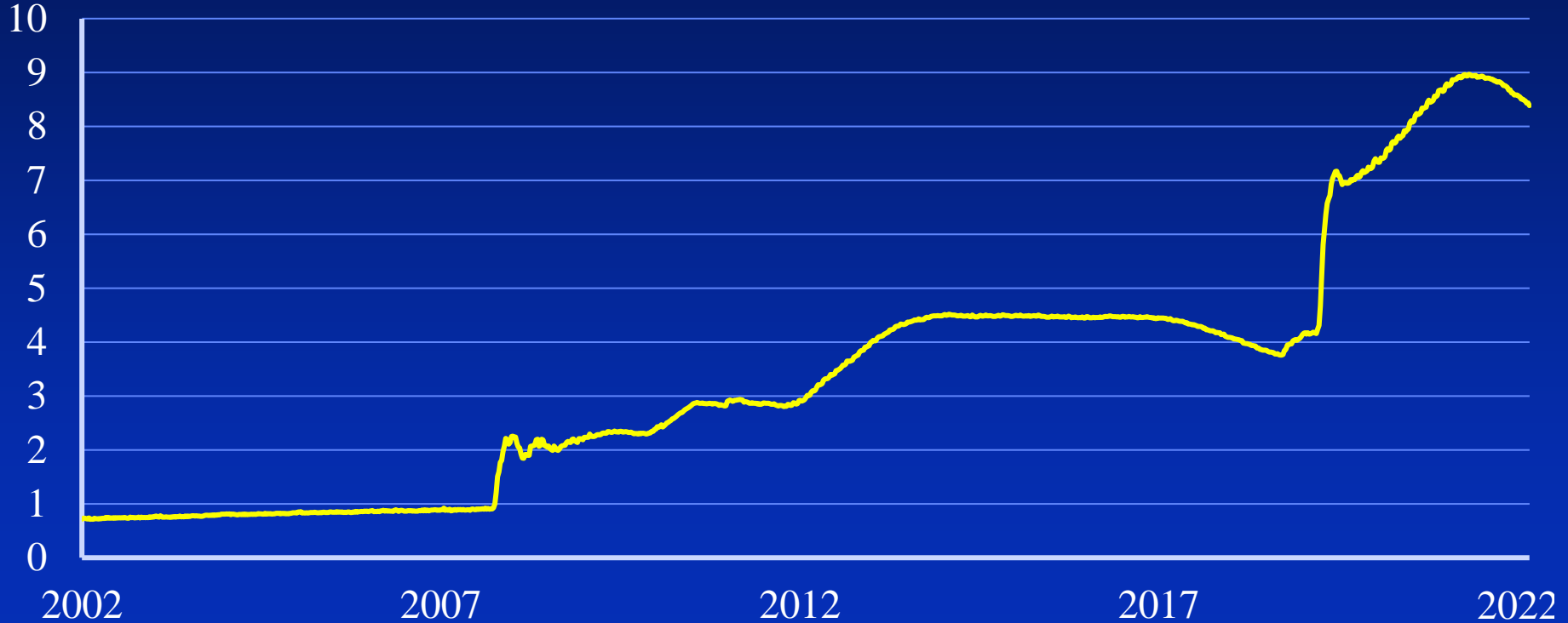
Federal Government Outlays (Year-over-Year % Change)



Six-month moving average. Source: Free Market Inc., as of 1/30/2023.

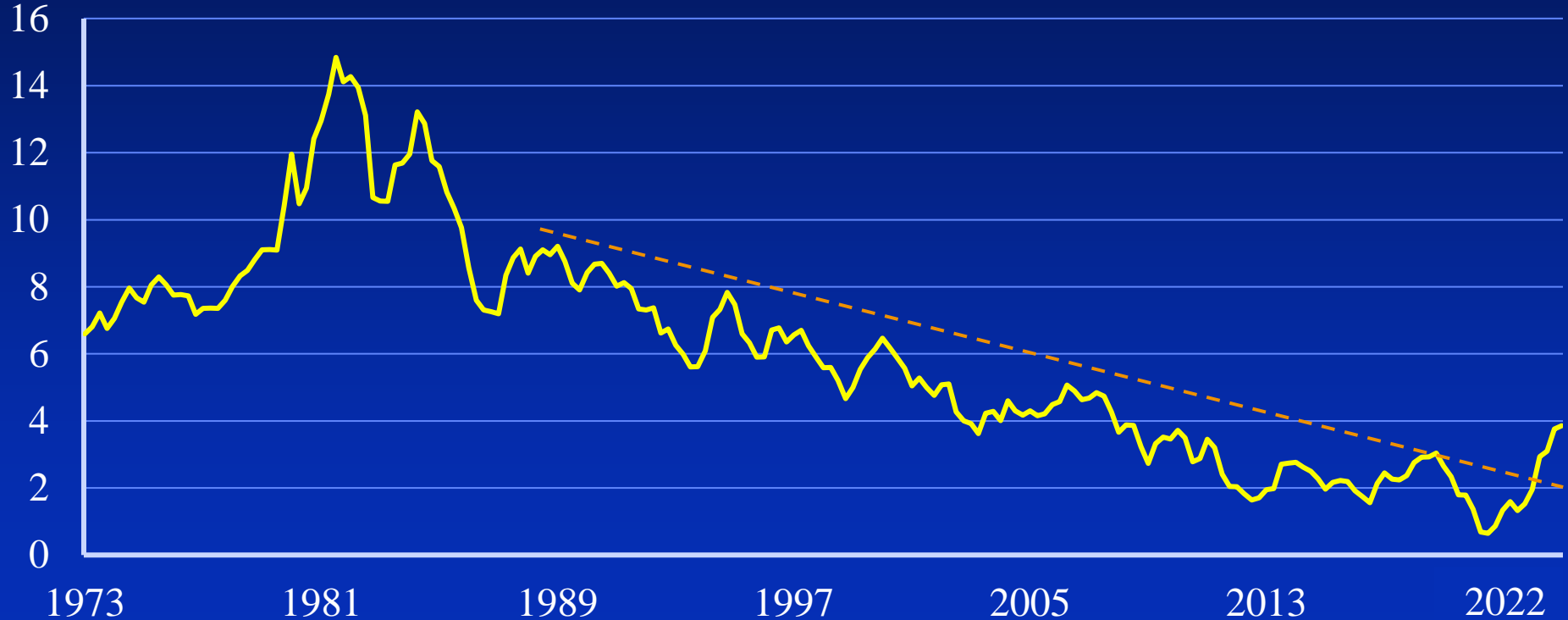
Legacy of Liquidity (Money Printing)

Fed Balance Sheet (\$T)



40-Year Reversal

10-Year U.S. Treasury Yields (%)

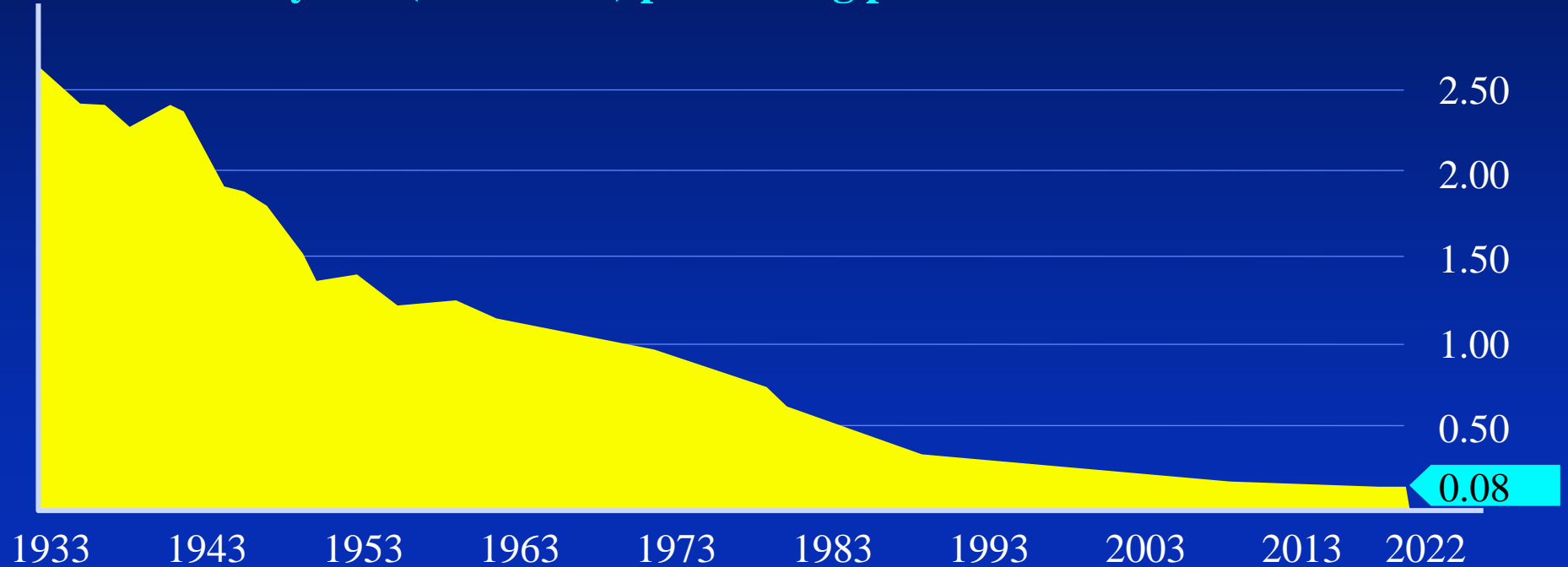


Source: St. Louis Fed (FRED), as of 2/17/2023.

From 5¢ Cokes to \$5 Lattes

Purchasing Power of the Dollar (1933-2022)

89 years (1933-2022) purchasing power of USD down 97%



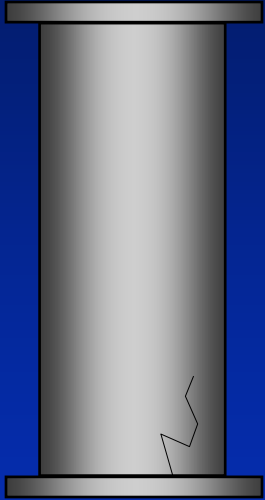
Reasonable Valuations

Positives

Net Worth/Savings Still Big
Margin Improvement Good
Fed Pivot???

Risks

Bank Crisis Threatens Earnings AND P/Es
Russian Invasion
Politics
Stocks Not Cheap
Interest Rates High
Huge Yield Curve Inversion
Recession?
World Event Risk



Free Cash Flow Generation Has Been the Story Behind the Market for Two Decades...

Large-Cap Stocks Free Cash Flow Margins, 1952–2021



Source: Empirical Research Partners, as of 11/22/2022.

Let's Look at the Numbers...

Then & Now: August 1982 vs. April 2023

	August '82	Current
Fed Funds Rate	10.25%	4.8%
10 Year UST Yield	13.6%	3.4%
Trailing S&P 500 P/E	8.8 x	18.0 x
Price to Book	1.0 x	2.6 x
Dividend Yield	6.6%	1.9%
Top Marginal Tax Rate	50%	37%
Capital Gains Tax Rate	20%	23.8%

Valuations Rarely Higher Than This

Stock Market Capitalization as a Percentage of Nominal GDP



Socialism Momentum

Growth AND Valuations at Risk

- Venezuela an example
- Innovation depends on respect for creativity and wealth
- Socialism targets the values, rights, and assets of successful entrepreneurs
- Government imposition of price/loan rate/rent/exchange controls always has caused shortages and economic decline

Authoritarian Expansion via Nationalism/Surveillance/ Repression of Dissent/Manipulation

(Control/Stability/Security vs. Democracy/Privacy)

Countries with Autocratic Leadership

Russia	India?	Nicaragua	Ethiopia
China	Philippines	Guatemala	Libya
Iran	Austria	Mozambique	Togo
Saudi Arabia	Moldova	Uganda	Zimbabwe
Hungary	Romania	Lebanon	Central African Republic
Poland	Czech Republic	Egypt	Kuwait
Turkey	Kazakhstan	Malaysia?	United Arab Emirates
Afghanistan	Singapore?	Myanmar	Morocco
Cambodia	Tanzania	Nigeria	Belarus
Thailand	Venezuela	Sudan	Uzbekistan
Brazil	Cuba	South Sudan	Azerbaijan
North Korea	Laos	Equatorial Guinea	Tajikistan
Syria	Paraguay	Eritrea	

The Union Heaven of Illinois

Permanent Pension Liabilities

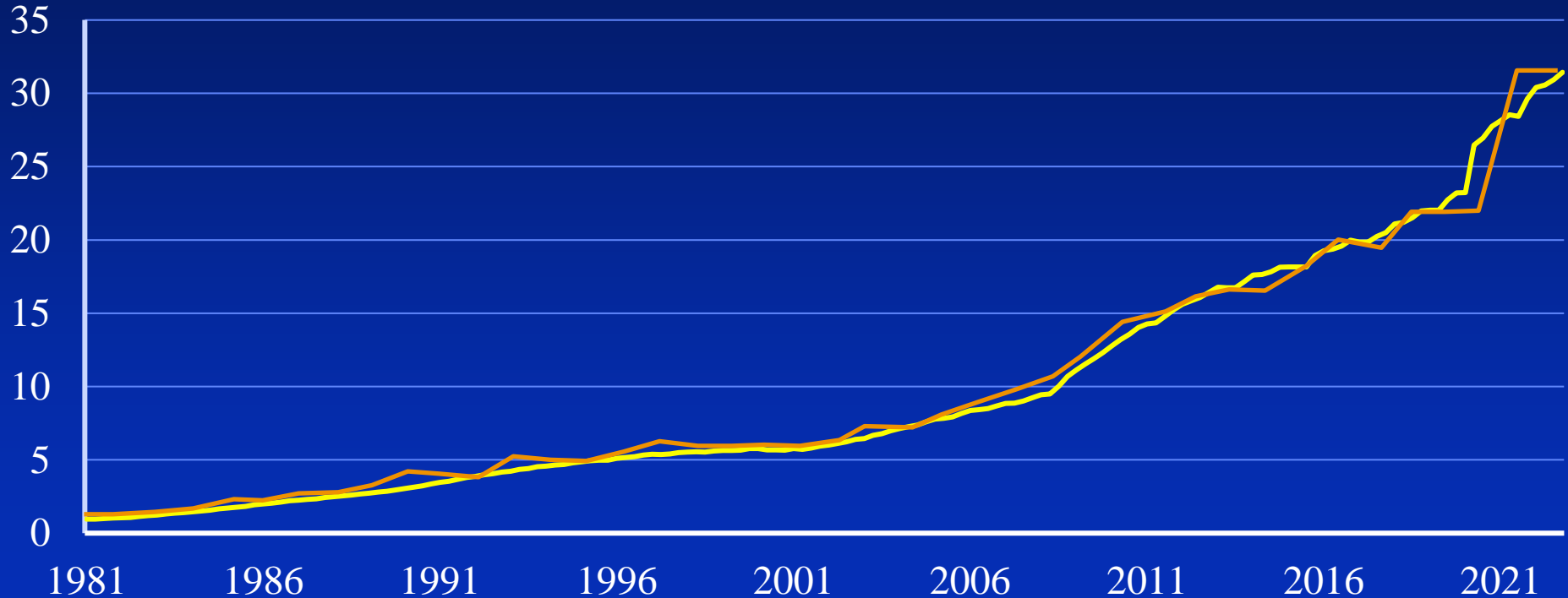
- Pensions are 21% funded
- \$535 billion unfunded
- Amended constitution extending the permanency of Illinois' pension liabilities to the entirety of public sector compensation

Would You Feel Comfortable and Confident Running a Country at Age 70?

• Cameroon	Biya	90	• U.S.	Biden	81
• Palestinians	Abbas	88	• Brazil	Lula	78
• Vatican	Francis	87	• U.S.	Trump	77
• Kuwait	Al-Sabah	86	• India	Modi	73
• Iran	Khamenei	84	• Russia	Putin	71
• U.S.	Pelosi	83	• Bank of Japan	Ueda	71
• U.S.	Sanders	82	• China	Xi	70
• Ireland	Higgins	82	• Mexico	Obrador	70
• U.S.	McConnell	81	• Turkey	Erdogan	69

Cataclysm?

Debt Ceiling and Public Debt (\$T, 1981-2023)



World Event Risk

Potential Disasters

Russia / Ukraine / Moldova
China / Trade / Taiwan / Hong Kong / Hegemony
Israel / Palestine
Iran / Syria / Lebanon / Iraq / Kurdistan / Afghanistan
Cyber Warfare
Iran Deal / Nuclear Proliferation
North Korea / South Korea
Turkey / Syria / Treaties
Pakistan / India
Weaponization of Space / AI Robots, Drones, Balloons / Laser Weaponry
Thailand
Venezuela / Chile / Bolivia / Peru
Europe / Brexit / Catalonia / Grexit?
Sino-Russian Entente
Biden Transition / Divided Government
Democracies Regressing / Socialism Advancing?
Mexico Cartel Battles
Saudi Succession / Autocracy
Egypt / Tunisia / Libya / Yemen / Ethiopia / Kenya / Congo / Nigeria
ISIS / Taliban
Environmental: CO2 / Water Levels / Garbage / Fires

Possible Successes

Vaccines
Israel / Sunni Relations
Trade Breakthrough
Tech Breakthrough / Energy Renaissance
South Asia?
Eurozone / Brexit
Japan?
Israel / Palestine Talks
North Korea
India / Pakistan / China
Charles / Camilla
William / Kate
Thorium / Graphene / Vanadium
Ireland Reunification?
Middle East Democracy
Immunotherapies

How to Cope?

Income & Growth

- Fidelity Capital & Income Fund
- Fidelity New Markets Income Fund
- Fidelity Convertible Securities Fund
- Fidelity High Income Fund
- Fidelity Floating Rate High Income Fund
- Fidelity Money Market Funds
- Financials?
- Global E/I
- Option Writing?
- Small Cap Value
- Preferred Stocks

Growth

- Blockchain Tech?
- Home Workspaces / Telehealth
- Quantum Computing
- Sensors / Actuators
- Fidelity Int'l Small Cap Opps Fund
- EV Infrastructure / Solar / Batteries
- AI / Cyber Security / Drones
- Video Production
- Genome / DNA / CRISPR / mRNA
- Fidelity Small Cap Discovery Fund
- Fidelity Emerging Market Discovery Fund
- Waste Management

Other

- Commodities
- Quality Closed End
- ESG
- Japan?
- Europe?
- Natural Resources?
- Water Sustainability Fund
- North Korea
- Crypto
- Uranium, copper, lithium, nickel, cobalt
- Silver?
- Oil service
- Defense

Global Breadth Means Identifying Better Opportunities

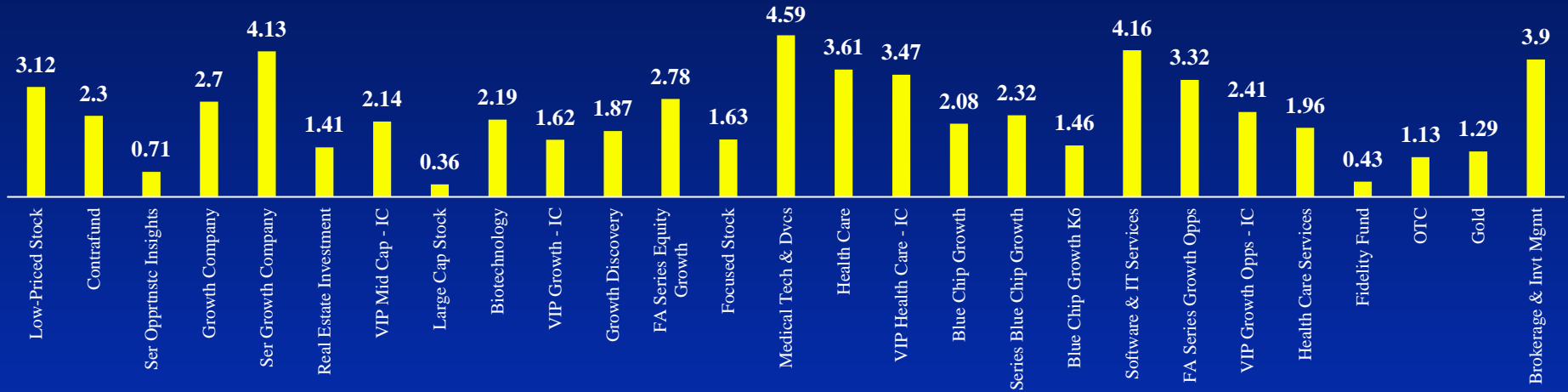
Leveraging the work of nearly 400 research professionals around the globe*



* Research professionals include both research analysts and associates. Source: Fidelity Investments as of 12/31/2022. Data is unaudited. These figures reflect the resources of Fidelity Management & Research Company, a U.S. company, and its subsidiaries.

Fidelity's Actively Managed Equity Mutual Funds Have Outperformed!

Funds with PMs with >4 Years of Fund Tenure That Have Beaten the S&P 500 by 30bps or More, Annualized Over PM Tenure



Tilling hast	Danoff	Wymer	Buller	Allen	Fruhan	Kaul	Weiner	Dufour	Yoon	Kalra	Khan	Weaver	Segalini	Park	Lin	Calhoun	Acker man						
33	32	10	26	9	24	22	18	17	16	16	14	14	14	9	6	9	7	7	7	6	5	4	4

Average annual outperformance, excess return percent against the S&P 500, 27 Equity Funds with at least 30 bps (0.30%) of annual active return over current PM tenure. Minimum tenure of 4 years shown. If multiple managers run a fund, lead manager name is shown, unless the fund is team-run, in which case the team's name is shown.

Source: FMR Co., as of 12/31/2022. Includes changes in share price and reinvestment of dividends and capital gains. Analysis excludes funds with sales charges.

Current performance may be higher or lower than that quoted. Visit i.fidelity.com or call your investment professional for most recent month-end performance. Performance data shown represents past performance and is no guarantee of future results. Investment return and principal value will fluctuate, so you may have a gain or loss when shares are sold.

Don't Short the United States

(America the Beautiful / Social Capital Huge)

- Work Ethic/Resilience/Flexibility/Choice/Mobility
- Innovation/Ingenuity/Risk profile (think Silicon Valley)
- Capitalistic system fosters competition
- Intellectual and financial magnet
- Competitiveness (deep/liquid capital markets, rule of law, property rights)
- Rehabilitation, not liquidation (via Chapter 11)
- Superior infrastructure (shipping, inventory costs)
- Accounting transparency
- Universities
- Lots of natural gas/fresh water/geographically removed/river network
- Freedoms (ideas, suffrage, religion, immigrants)

Patience!

Conclusion

- Keep your goals in sight
- Review your portfolio regularly / rebalance
- Use a financial representative to help you in choices / asset allocation



Before investing, consider the funds' investment objectives, risks, charges, and expenses. Contact Fidelity for a prospectus or, if available, a summary prospectus containing this information. Read it carefully.

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